

**REGULAR STATE BANKING BOARD MEETING
OFFICE OF THE COMMISSIONER
DEPARTMENT OF FINANCIAL INSTITUTIONS
2000 SCHAFFER STREET, SUITE G
BISMARCK, NORTH DAKOTA**

March 6, 2007

The regular meeting of the State Banking Board was held in the Office of the Commissioner, Department of Financial Institutions, 2000 Schafer Street, Suite G, Bismarck, North Dakota. Chairman Karsky called the meeting to order at 9:03 a.m., Tuesday, March 6, 2007.

MEMBERS PRESENT: Timothy J. Karsky, Chairman
Ron Braseth, Member
Bill Daniel, Member
Loren Henke, Member
Launa Moldenhauer, Member
Roger Monson, Member

MEMBER ABSENT: Anita Quale, Member

ALSO PRESENT: Robert J. Entringer, Secretary
Douglas D. Grenz, Chief Examiner – Banks
Aaron Webb, Assistant Attorney General

APPROVAL OF MINUTES

Chairman Karsky indicated the Board received copies of the minutes of the regular meeting held on January 11 and 12, 2007.

It was moved by Member Monson, seconded by Member Braseth, and carried by a vote of 6 to 0, with Member Quale absent, to approve the minutes.

PUBLIC HEARING – STATE BANK & TRUST, FARGO, APPLICATION TO ESTABLISH AN INTERSTATE BRANCH AT 128 WEST CAVOUR AVENUE, FERGUS FALLS, MINNESOTA

Chairman Karsky provided some history regarding the application from State Bank & Trust, Fargo. Chairman Karsky stated that notice of the application was sent to the Department of Commerce in Minnesota for their comments and views, and their response was that this is State Bank & Trust's third interstate branch in Minnesota; therefore, they had no comment and indicated there was no need for them to approve the application. Chairman Karsky indicated the FDIC contacted him and asked what action the Department would be taking on this application; he indicated the State Banking Board would need to act on the application and more than likely the Department would recommend approval.

Chairman Karsky stated on the last day of the notice the Department received a Notice of Intent to Protest and Request for a Hearing; therefore, it is likely the FDIC will not act on the application until the State Banking Board acts.

Chairman Karsky indicated he asked Assistant Attorney General Webb whether the State Banking Board had to grant the Request for a Hearing or act on the application without granting the hearing. Assistant Attorney General Webb reviewed the North Dakota Century Code and North Dakota Administrative Code, and indicated it was his opinion the Board was obligated to grant the Request for a Hearing.

Chairman Karsky indicated he had been in communication with Karen Grandstrand with the Fredrickson & Byron Law Firm, who are representing the Protestants, and had narrowed the hearing date to a couple possible dates. Chairman Karsky stated the preferable date would be April 11, 2007, and asked the Board members if they were available on that date. The five Board members present indicated they would be available for the hearing on April 11, 2007.

It was moved by Member Monson and seconded by Member Braseth to Order a Hearing regarding the application of State Bank & Trust, Fargo, to establish an interstate branch at 128 West Cavour Avenue, Fergus Falls, Minnesota. The motion carried by a vote of 6 to 0, with Member Quale absent.

Michael Carlson from Faegre and Benson, Minneapolis, and Rick Nilson from Larson Allen, Minneapolis, were added by conference call to the meeting at 9:13 a.m.

CHANGE OF CONTROL APPLICATION OF TRINITY INVESTMENTS, INC., FARGO, TO ACQUIRE 100% OF BANK OF GLEN ULLIN, GLEN ULLIN

Chairman Karsky indicated there is no Memorandum enclosed with the application and explained that Messrs. Carlson and Nilson would review the application.

Mr. Carlson indicated the current owners of the Bank of Glen Ullin have entered into a Stock Purchase Agreement with Trinity Investments, Inc., (Trinity) which is a newly formed bank holding company. Mr. Carlson provided demographic and background information with regard to the Bank of Glen Ullin, and explained that the bank has been a top rated bank by the FDIC for the last 10 years. Trinity intends to acquire all the shares of the bank for \$4.2 million, which is approximately 1.7 times book value. The eight investors in Trinity will be injecting \$2.2 million in cash, and Trinity will borrow \$2 million from the Bank of North Dakota. Mr. Carlson indicated present management of the bank is John and Donna Richter, and Frank Brown as a Director and Vice President of the bank who has been with the bank approximately 10 of his 15 years of banking experience. Mr. Carlson indicated prior to beginning work at Bank of Glen Ullin, Mr. Brown worked for two other banks managing a branch office.

Mr. Carlson indicated the present Board is comprised of the Richter family, as well as Frank Brown, and Allan Weisbeck. Mr. Carlson stated Mr. Weisbeck is a CPA and Investment Department Manager at the Bank of North Dakota. The proposed management would include Frank Brown, who will be President and Director, with the other primary officers being Darrin Hetland, who will be the CEO and Senior Lender. Mr. Hetland has 16 years of banking experience, including 8 as a lender and 8 as an examiner with the FDIC. Jolene Muscha will be an officer of the bank responsible for operations. Ms. Muscha has 8 years of experience as a FDIC examiner. Mr. Carlson indicated following consummation of the transaction the Board will consist of Darrin Hetland, Jolene Muscha, Frank Brown, John Schmid (the owner of Grant County State Bank, Carson), Allan Weisbeck, and Joe Calvert (a retired FDIC employee who had approximately 25

years experience with the FDIC, including most recently as a field office supervisor and supervising examiner). The Directors of Trinity will include Darrin Hetland, John Schmid, Jolene Muscha, James Tilton, Allan Weisbeck, and Joe Calvert. Messrs. Weisbeck and Calvert will also be officers of the holding company and in their roles as directors of the bank Mr. Weisbeck will be responsible for the investments and Mr. Calvert will be responsible for risk management.

Mr. Carlson indicated that ownership of Trinity is broken down as follows: Darrin Hetland 25%, John Schmid 25%, Jolene Muscha 12.5%, Jim and Judy Tilton 12.5% (the Tilton's are Jolene Muscha's parents), Allan Weisbeck 8.3%, Frank Brown 8.3%, Joe Calvert 4.2%, and Richard Brown 4.2%.

Chairman Karsky stated he was aware the FDIC had issued a comment letter regarding the management of the bank after the proposed change of control, wherein the FDIC was questioning the banking experience of the two former FDIC examiners who would be officers of the bank, as well as Mr. Brown who has banking experience; however, no experience in managing a bank. Chairman Karsky indicated the Department has discussed this issue and indicated they are confident Mr. Brown has the capability to run the bank on a day-to-day basis, and inquired of Mr. Carlson whether Mrs. Richter had agreed to stay on with the bank until the end of the year to assist with management of the bank. Mr. Carlson indicated it was correct that Mrs. Richter would remain an employee of the bank for the remainder of the year, with her compensation limited to ongoing health insurance coverage. Mrs. Richter's role will be to provide a smooth transition and guidance on day-to-day activities, noting that she had been largely responsible for compliance and will continue to advise in that role.

Mr. Carlson indicated there are also two long-time employees that have committed to stay with the bank: Janet Boschee who is Cashier and has been with the bank approximately 40 years; Renie Krein has been Assistant Cashier for 18 years. Mr. Carlson indicated there will be a significant amount of continuity as far as day-to-day operations, adding that John Schmid and Joe Calvert, who are both members of the Board, have significant banking experience. Mr. Carlson indicated that Mr. Hetland and Ms. Muscha have a significant amount of training and experience in both evaluating banks and bank management, and while they may have to learn a considerable amount regarding the day-to-day operations, their experience gives them the ability to identify strengths, weaknesses, opportunities, and threats; so those abilities bring a significant amount of experience to the bank.

Member Henke asked about the sources and uses, and inquired as to whether the cash invested would be \$2.2 million or \$2.4 million. Mr. Carlson indicated Mr. Hetland and Ms. Muscha will be receiving 50 shares each for their work in preparation of the application, so the injection will actually be \$2.3 million.

Chairman Karsky asked Mr. Nilson if he would review the projections of the application and the impact the dividend, which is also on today's agenda, will have on the bank.

Mr. Nilson directed the Board to page 10 of the financial projections which shows the calculation of the purchase price. Mr. Nilson indicated essentially what has happened is the sellers have agreed to reduce their capital down to 8% via dividends to make the acquisition capital more common with what is appropriate in the banking industry, and then notes that the buyers will pay a \$1.8 million premium on top of that adjusted equity capital. Therefore, using September 30, 2006, beginning equity capital of \$4,009,000, and adjusting for the unrealized gain on securities and deducting the dividend to reduce capital to 8% of \$2,416,000. Along with that the purchasers will pay a \$1.8 million premium for a total purchase price of \$4,216,000. The purchasers are injecting \$2.3 million into Trinity and Trinity will borrow \$2 million from the Bank of North Dakota to fund the purchase price. Mr. Nilson indicated the Federal Reserve had asked for a more recent pro forma balance sheet on the bank, and because we now will be using a 12-31-06 balance sheet, there will be a slight adjustment to the number, because the present owners took out a dividend in the fourth quarter which reduces the dividend necessary to take capital down to 8% from \$1.6 million to \$1,350,000. However, based on the adjusted numbers the bank will result with total risk based capital of just over 10% after the dividend and the purchase of the bank by the applicants. Mr. Nilson stated because this acquisition is a 100% purchase, the applicants must account for the acquisition using pushdown accounting, which results in undivided profits being pushed up to surplus and then all of the items on the balance sheet being fair valued. Mr. Nilson stated the applicants have obtained an appraisal on the building and did some work as far as appraising the equipment because the present purchasers have taken very heavy depreciation on the equipment, resulting in a complete depreciation of all equipment on the bank's balance sheet. As a result of fair valuing the assets, there is a considerable pickup in Tier One capital because of the requirement to adjust those assets to a fair value. By making those adjustments the Tier One Risk Based capital raises to 9.25%; the Total Risk Based capital rising to 11.7%. Mr. Nilson indicated the \$1.8 million premium has to be

allocated on the balance sheet somehow, so if there are no fair value adjustments on anything the entire premium would go to goodwill or some type of intangible. Because they have documented reasons to allocate the premium to hard assets, that would come first with the remainder going to goodwill, and in this case the adjustment to fixed assets was \$460,000.

Chairman Karsky reminded Messrs. Carlson and Nilson that because undivided profits is zeroed out and a result of the large dividend taken by the present shareholders, the applicants would need to come to the Commissioner or State Banking Board for approval of future dividends for the next three years, assuming the application is approved.

Chairman Karsky also indicated the transaction will have an impact on the bank's legal lending limit because the dividend reducing equity will have an impact on the bank's legal lending limit after that dividend.

Chairman Karsky noted the bank had been a good earning bank over the last several years and asked Mr. Nilson what he would be projecting the lowest capital ratio to be over the next 10 years. Mr. Nilson indicated the lowest capital ratio is actually at the starting date, which according to the projections is September 30, 2006, and the capital ratio grows from there. Mr. Nilson further stated that one thing they looked at is the ongoing balance between cash flow of the holding company and capital at the bank level, and if you look at the projections through 12-31-08 there is an extra \$560,000 in the mix if you were to pull capital down to the 10% total risk based ratio. Mr. Nilson stated he understands the comments regarding the dividend issue and added if the bank does not make money there will not be the need for distributions for Subchapter S shareholder taxes, although they still have the debt servicing requirements. Mr. Nilson noted if the bank earns as it has in the past that should not be an issue. Mr. Nilson noted in the projections they use the historical growth rate of 3.3% and the projections use a return on assets of 1.7%, although recently the bank has been tracking on a level quite a bit higher than that.

Member Henke noted that he is involved with a bank that has a core deposit intangible that is amortized monthly, adding that is a significant hit to earnings, and Mr. Nilson concurred it certainly is and in this instance it is approximately \$78,000 per year. Mr. Nilson noted of the \$1.8 million premium, \$780,000 is the core deposit intangible, which is calculated using 3% of core deposits. The \$780,000 is then amortized over a 10 year period and while it does impact

earnings, it does not affect capital because it does not count towards capital. The remainder of the premium, \$595,000 is allocated to goodwill and does not get amortized at all in today's accounting world.

Mr. Carlson stated the return on assets of 1.7% is believed to be fairly conservative, but even a drop of 30 basis points would still allow the bank and Trinity to service the debt, and over the time periods that Mr. Nilson has analyzed the return on assets has never dropped to such a low level.

Chairman Karsky reviewed the criteria in Section 6-08-08.1 of the North Dakota Century Code for the Board to consider on this application.

Chairman Karsky noted the Department's recommendation is to approve the application based on the management experience of Messrs. Schmid and Calvert, as well as Mr. Weisbeck and the belief that the projections are fairly conservative and accurate.

Member Moldenhauer asked if Ms. Muscha would be moving to Glen Ullin, and Mr. Carlson indicated at the present time that is still not decided.

It was moved by Member Henke and seconded by Member Monson to approve the application by Trinity Investments, Inc., Fargo, to acquire 100% of the Bank of Glen Ullin, Glen Ullin.

Chairman Karsky asked Mr. Carlson if he knew where the Federal Reserve is at on the application. Mr. Carlson indicated after receiving the letter from the FDIC, the Federal Reserve moved the application to Washington for action, which is not uncommon because it gives them an additional 30 days, and the Federal Reserve analyst indicated they had no further questions after receiving the applicant's response to the FDIC's letter.

Chairman Karsky asked Mr. Carlson if he knew when the 30 day deadline expired, and Mr. Carlson indicated he thought it was April 13, 2007.

The motion carried by a vote of 6 to 0, with Member Quale absent.

Messrs. Carlson and Nilson left the meeting by conference call at 9:48 a.m.

BANK OF GLEN ULLIN, GLEN ULLIN – REQUEST TO DECLARE A DIVIDEND NOT TO EXCEED \$1,775,000

Chairman Karsky indicated he feels if the Board approves this request, it should be added that the capital cannot be reduced below 8%. Assistant Commissioner Entringer suggested that the dividend should not exceed \$1,775,000, and that capital cannot be dropped below 8%.

It was moved by Member Braseth and seconded by Member Moldenhauer to approve the request by Bank of Glen Ullin to declare a dividend not to exceed \$1,775,000, and that capital may not drop below 8%. The motion was carried by a vote of 6 to 0, with Member Quale absent.

REAPPOINTMENT OF ROGER MONSON

Chairman Karsky noted the reappointment of Roger Monson from July 1, 2007, to June 30, 2012, and congratulated Member Monson.

LEGISLATION

Chairman Karsky briefly updated the Board on legislation, noting that the Department's budget had been passed on the Senate side and is on its way to the Governor for signing. In addition, House Bill No. 1062 has passed, and the Department continues to monitor other legislation regarding banking.

FARM CREDIT SERVICES

Chairman Karsky passed out a letter from Spencer Backus and Barney Franks to Farm Credit Services, noting that this issue was on the Legislative Conference Call with the Conference of State Bank Supervisors (CSBS), and Chairman Karsky indicated he had asked CSBS that this be one of the legislative priorities for CSBS this year.

Member Monson indicated he had sent a letter to Congressman Pomeroy, whose response indicated that they will certainly look at this Horizon's Project to

see if it will truly improve the financial condition of rural America, but not at the expense of banks.

Member Henke indicated the Rural Electric Association is supporting the approval of the Horizon's Project.

The Board recessed at 9:50 a.m., and reconvened at 10:05 a.m.

**SCHEDULED HEARING – BLACKRIDGE FINANCIAL, INC., FARGO –
APPLICATION TO ORGANIZE A NEW STATE-CHARTERED BANKING
ASSOCIATION TO BE KNOWN AS BLACKRIDGE BANK, FARGO**

At this time the Board opened the hearing regarding the application by BlackRidge Financial, Inc., Fargo, to organize a new state-chartered banking association to be known as BlackRidgeBANK, Fargo. The hearing concluded 11:25 a.m.

The Board recessed at 11:25 a.m., and reconvened at 11:35 a.m.

Also present at this point were Gary Knutson, Jon Kretchmen, Craig Weiss, Tom Rohleder, Sean Burian, Mark Anderson, and Jon Petrik with Vogel Law Firm, Bismarck.

Chairman Karsky asked the Board if they were prepared to act on the application at this time, and it was the consensus of the Board that they were prepared to act.

Chairman Karsky indicated he would like to review the items the Board must consider, starting whether the place where the proposed banking association is to be located is in need of such further banking facilities.

Member Moldenhauer indicated the application addressed that issue and supported that Fargo was in need of further facilities.

Member Henke indicated the location of the bank supported the need in South Fargo for further banking facilities.

Chairman Karsky agreed the application indicated the potential for growth in South Fargo and the projection certainly supported the need for further banking facilities.

Chairman Karsky added that the applicants did a very good job of laying out their market survey, what their strategy would be, and how they were planning to succeed.

Chairman Karsky stated the second criterion is whether the proposed association is adapted to the filling of the need. The Board was unanimous that the presentation supported the ability to fill the need identified.

Chairman Karsky indicated the third criterion the Board must consider is whether the proposed incorporators are possessed of such character, integrity, reputation, and financial standing as shown by a detailed financial statement to be furnished by them, and that their connection with the banking association will be beneficial to the public welfare of the community in which the bank is proposed to be established.

Member Braseth stated he believes the applicants' experience and track record have demonstrated that this criterion is met. Chairman Karsky concurred, adding he does not feel we could ask for a better management group.

Member Moldenhauer concurred, adding that the presentation was excellent and much of it was presented without notes.

Chairman Karsky indicated if the Board so wishes to move for approval of the application, it would be his suggestion to include the requirement to obtain FDIC insurance, as well as maintaining a well-capitalized bank, and maintain compliance with the State Banking Board's minimum capital policy of 7%.

Chairman Karsky asked what the target date for opening would be. The applicants indicated considering the pending applications with the FDIC and Federal Reserve, they are looking at the end of April 2007.

It was moved by Member Braseth and seconded by Member Moldenhauer to approve the application by BlackRidge Financial, Inc., Fargo, for a Certificate of Organization for a state-chartered banking association to

be known as BlackRidgeBANK, Fargo. The motion was carried by a vote of 6 to 0, with Member Quale absent.

Chairman Karsky asked when the bank's legal counsel would have the proposed Findings of Fact, Conclusions of Law, and Order ready for the Board, and Mr. Petrik indicated they were ready at this time; however, needed to add the two criteria that the Board added regarding FDIC insurance and capital maintenance. Mr. Petrik indicated he would have the amended Findings to Assistant Commissioner Entringer this afternoon, and the Board agreed to meet by conference call on Friday, March 9, 2007, to review the proposed Findings.

ITEMS TO BE NOTED

Comptroller of the Currency

Effective 1-20-07, Alerus Financial, National Association, Minnetonka, MN, merged into Alerus Financial, National Association, Grand Forks, ND.

The Board went into closed session at 11:46 a.m.

Timothy J. Karsky, Chairman

Robert J. Entringer, Secretary